# DILUTION

## Clarisa Long

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## INTRODUCTION

Ever since the creation of federal dilution law, legal commentators have expressed consternation about this variation of the trademark entitlement.[1] Dilution has been called "absolute and unlimitable," "powerful," a "disaster," "a fundamental shift in the nature of trademark protection," and "immensely popular."[2] Mark Lemley has written that a dilution theory of protection is contributing to "the death of common sense" in trademark law.[3] Some commentators are concerned that dilution law represents an expansion in property rights at the expense of the public domain.[4] Others worry that it stifles expression, hampers commercial communication, or reduces competition.[5] Richard Posner frets about dilution's "seductive appeal."[6]

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[1] See Sara Stadler Nelson, The Wages of Ubiquity in Trademark Law, 88 Iowa L. Rev. 731, 732 (2003) ("Courts and scholars have spilled a great deal of ink on the subject of trademark dilution").

[2] See Barton Beebe, The Semiotic Analysis Of Trademark Law, 51 UCLA L. Rev. 621, 684 (2004) ("[a]ntidilution protection is by its nature absolute and unlimitable."); Gerard N. Magliocca, From Ashes to Fire: Trademark and Copyright in Transition, 82 N.C. L. Rev. 1009, 1033 (2004) (dilution "is now a powerful alternative to the traditional model of trademark protection"); Wendy J. Gordon, Introduction, 108 Yale L.J. 1611, 1614 n.19, 1615 (1999) (worrying about dilution being a "disaster"); Mark A. Lemley, The Modern Lanham Act And The Death Of Common Sense, 108 Yale L.J. 1687, 1698 (1999) ("dilution laws represent a fundamental shift in the nature of trademark protection"); David S. Welkowitz, The Supreme Court and Trademark Law in the New Millennium, 30 William Mitchell L. Rev. 1659, 1681 (2004) (describing this form of protection as "immensely popular").

[3] Lemley, supra note 2, at 1692.

[4] See, e.g., Margaret Jane Radin & R. Polk Wagner, The Myth of Private Ordering: Rediscovering Legal Realism in Cyberspace, 73 Chi.-Kent L. Rev. 1295, 1305 n.29 (1998) ("Modern trademark law is moving . . . towards a . . . property rights regime.").

[5] See, e.g., Gordon, supra note 2, at 1614-15 (expressing concern about dilution law's ability to undermine comparative advertising and parody); Mark A. Lemley, Romantic Authorship and the Rhetoric of Property, 75 Tex. L. Rev. 873, 900 (1997) (stating that trademark owners "are well on their way to owning the exclusive right to pun").

[6] Richard A. Posner, Misappropriation: A Dirge, 40 Hous. L. Rev. 621, 623 (2003) ("I worry about the seductive appeal" of dilution law).

This is exactly what we would expect from reading the federal dilution statute. On its face, dilution law looks like powerful form of protection, one that should be easy to enforce.[7] The Federal Trademark Dilution Act (FTDA) protects "the owner of a famous mark . . . against another person's commercial use in commerce of a mark or trade name, if such use begins after the mark becomes famous and causes dilution of the distinctive quality of the mark."[8] Prior to the advent of this form of protection, the owner of a mark could recover for trademark infringement under the Lanham Act only if the commercial use of its mark by someone else caused consumer confusion. By contrast, dilution grants trademark holders a remedy for the use of their famous marks by another even when consumers are not confused. Firms can now find themselves in the cross-hairs of a trademark owner with whom they do not even compete.[9] One example sometimes offered to illustrate a potential dilution claim is the simultaneous use of the trademark DELTA[10] by Delta Airlines, Delta Faucet, Delta Dental, Delta Power Tools, and Delta Vanlines.[11]

The dilution statute may well look fearsome in print, but what is it like in reality? In this paper I explore how dilution law is actually being judicially enforced. To do so, I examine the enforcement rates of dilution claims in reported cases and in unreported trademark filings. These data include the results for unreported settled cases in which dilution was asserted as a claim. If dilution law really is as popular as its reputation would suggest, then we should see dilution being asserted as a theory of infringement a significant percent of the time. If it is really true that dilution law is a powerful form of protection in practice, then we should expect to see

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[7] See Paul Heald, Sunbeam Products, Inc. v. The West Bend Co.: Exposing the Malign Application of the Federal Dilution Statute to Product Configurations, 5 J. Intell. Prop. L. 415, 416-17 (1998) ("[A] suit for dilution is easier to prove than infringement because the troublesome factual question of consumer confusion is not relevant.").

[8] Federal Trademark Dilution Act of 1995, Pub. L. No. 104-98 § 3(a), 109 Stat. 985 (January 16, 1996), codified at 15 U.S.C. §§ 1125(c)(1), 1127 (2004).

[9] See 15 U.S.C. § 1127 (stating that dilution may occur "regardless of the presence or absence of -- (1) competition between the owner of the famous mark and other parties, or (2) likelihood of confusion, mistake, or deception.").

[10] I follow the convention of indicating a word or logo used as a trademark by displaying it in all capital letters.

[11] See Transcript of Oral Argument in Moseley v. V Secret Catalogue, Inc., No. 01-1015 (Sup. Ct., Nov. 12, 2002) (Walter Dellinger, arguing for respondent Victoria's Secret, used "Delta Airlines" and "Delta Faucets" as an example of a potential dilution claim).

robust judicial enforcement of dilution claims brought by trademark holders against a range of competitors and noncompetitors alike.

The data show that dilution has not been as popular a theory of infringement as one might expect. Federal dilution claims were asserted in only a fraction of trademark infringement filings in my sample.[12] Moreover, judicial enforcement of dilution law is not robust and has been eroding over time. In the first year of federal dilution law's existence, the judiciary enforced dilution claims approximately half the time. But relief rates have been on a downward trajectory both in reported cases and in unreported filings ever since. It could well be the case that dilution law is a powerful bargaining chip in cease-and-desist letters and in negotiations entirely outside the litigatory arena. But in the federal courts dilution cases are not exactly a juggernaut. That is not to say that dilution law lacks seductive appeal, but rather that it seems not to have worked its wiles on the judicial mind as many feared.

The weakness of dilution law in practice is a bit unusual. It's not the result one would expect, either from reading the statute itself, from knowing which interest groups benefit from dilution law's robust enforcement, or from examining other areas of intellectual property. In other areas of intellectual property -- whether copyright, patent, trade secret, rights of publicity, or traditional trademark law -- the empirical trend has been toward stronger, broader, and longer protection. In the past ten years alone, the various areas of intellectual property law have expanded to encompass more subject matter in their respective ambits. The term of protection has been lengthened for the types of intellectual property subject to protection for "limited times." Legal enforcement of intellectual property rights has become easier and more favorable. One would expect trademark dilution law to be no different. And yet dilution appears to be not just the lone holdout against expansion, but weakening. What gives?

There could be any number of reasons for falling rates of enforcement of dilution claims, and I will discuss some of them. One I will explore in particular detail is judicial disenchantment with dilution law. My interpretation of quantitative and qualitative data derived

[12] These were drawn from the set of all trademark filings made since the passage of the FTDA, not just cases resulting in a published opinion.

from published opinions and general trademark infringement filings is that after a period of initial broad interpretation and sometimes even enthusiastic embrace of dilution law, courts in recent years have become rather chary of it. This has involved courts throwing up barriers to the success of dilution claims, even to the point of imposing limitations not in the statute. Although courts have generally not articulated clearly or consistently why they are uncomfortable with dilution, there are certain broad themes underlying their discomfort.

Courts appear to recognize that dilution law has a place -- albeit a carefully circumscribed place -- among the various forms of intellectual property protection. As written, dilution encompasses a broad range of third-party (non-owner) uses of a trademark. Distinguishing between social welfare-enhancing uses and social welfare-reducing uses is key, but the statute by itself provides little guidance. Judges have instinctively, although not explicitly, recognized that many dilution claims are social-welfare reducing even if they appear to fall within the parameters of the statute. Courts then find reasons to deny relief in individual cases whose facts only hint at larger problems with dilution law. Each circuit is developing its own set of ways to shut down many of the dilution claims that come before it, which results in dilution law evolving quickly and differently from circuit to circuit. By and large, the various limitations the judiciary has created have had the happy, if unplanned, effect of creating a general efficiency framework for dilution cases.

This paper proceeds as follows. I discuss dilution as a theory of infringement in Part I. In Part II, I present the results I obtained from examining reported dilution cases and unreported filings. I show that judicial enforcement of dilution claims has been dropping over time and explore some reasons why this might be so. In Part III, I expand upon one set of these reasons that has particular explanatory traction: Courts are uncomfortable with the reach of dilution law and are progressively reading limitations into the statute in response. Although judges are not justifying their actions in efficiency terms, the upshot is that over time enforcement is generally being confined to cases where enjoining unauthorized use of the trademark is welfare-enhancing.

## I. DILUTION AS A THEORY OF INFRINGEMENT

Trademark law, at least in what I will call its classical form, is directed at preventing harm to consumers through the misleading or confusing use of trademarks. Trademarks indicate the source or origin of goods.[13] Because many things can serve as source-identifiers, trademarks aren't confined to words, phrases, pictures, logos, symbols and other merely literary elements. The look-and-feel of a product, a product configuration, a color, sound, or scent may serve as a source identifier.[14] Thus I will refer to all product identifiers protected under the Lanham Act as "marks" and "trademarks," even though some of these may actually be trade dress or service marks.

Classical trademark law is based on the proposition that consumers rely on a particular trademark to identify a product possessing a particular mix of attributes.[15] On this view, a trademark is a proxy for a set of product attributes. Use of an identical or similar mark on a different product with a different set of product characteristics can increase consumers' information costs about the good and may cause confusion. Consumers may be confused about the source of the goods, they may mistakenly believe an entity has sponsored or approved a product, or they merely be observers (not direct purchasers) of the good after it has been purchased. But regardless of what form the actual or potential confusion takes, classical trademark law allows trademark holders to recover only to the extent reasonable consumers are actually or likely to be confused. With this focus on consumers, the classical trademark entitlement is essentially a set of use rights rather than purely exclusionary rights: a trademark holder's ability to recover is determined by the way the mark is used by others. Trademark holders have the right only to exclude third parties from using the mark in a confusing manner.

[13] See 15 U.S.C. § 1127 (defining a trademark as "any word, name, symbol, or device, or any combination thereof [used] identify and distinguish [a person's] goods").

[14] See, e.g., Qualitex Co. v. Jacobson Prods. Co., 514 U.S. 159, 162 (1995) (including "color within the universe of things that can qualify as a trademark"); Two Pesos, Inc. v. Taco Cabana, Inc., 505 U.S. 763, 767 (1992) (finding restaurant décor to be protected trade dress); In re General Electric Broadcasting Company, Inc., 199 U.S.P.Q. 560 (T.T.A.B. 1978) (sound); In re Clarke, 17 U.S.P.Q.2d 1238 (T.T.A.B. 1990) (scent).

[15] See William A. Landes and Richard A. Posner, Trademark Law: An Economic Perspective, 30 J.L. & Econ. 265, 308-09 (1987) (reprinted as chapter 7 in WILLIAM A. LANDES AND RICHARD A. POSNER, THE ECONOMIC STRUCTURE OF INTELLECTUAL PROPERTY LAW (2003)).

What constitutes a prohibited third-party use is a context-dependent question. Outcomes will be influenced by such factors as what the product is (e.g., an inspection good vs. an experience good), whether the owners and users are competing in the same product market, the nature and knowledge of the relevant consumer audience (are they children? or particularly savvy consumers?), and the manner in which the mark is used.

By contrast, dilution law is producer-focused rather than consumer-focused: it seeks to prevent diminution in the value of a famous mark stemming from the use of the mark by someone other than the trademark holder.[16] Put another way, dilution law attempts to preserve the trademark owner's "commercial good will" by preserving the distinctiveness and positive mental evocations produced in consumers' minds from experience with the trademark. Whereas classic trademark law treats trademarks as being valuable because they reduce consumer search costs, the benefit of which redounds to consumers, dilution law treats the value of a trademark as consisting in the (hopefully positive) feelings it evokes in consumers about anything associated with that trademark, the benefit of which redounds to producers. Because the value of the mark under dilution law is the bond between the consumer and the brand, dilution allows recovery when the marketing value of the mark is "whittled away." As a result, dilution allows recovery in the absence of consumer confusion.[17] As the Supreme Court recently noted, "unlike traditional infringement law, the prohibitions against trademark dilution are not the product of common-law development, and are not motivated by an interest in protecting consumers."[18]

[16] What I and the literature customarily refer to as "dilution law" is technically *anti*dilution law. See 4 J. Thomas McCarthy, McCarthy on Trademarks and Unfair Competition § 24:70, at 24-124.6 ("The underlying rationale of the dilution doctrine is that a gradual attenuation . . . of the value of a trademark, resulting from use by another, constitutes an invasion of the senior user's property right in its mark and gives rise to an independent commercial tort.").

[17] Because there is more than one theory of what dilution is, courts are divided on the relationship between consumer confusion and dilution. *Compare* Nabisco, Inc. v. PF Brands, Inc., 191 F.3d 208 (2d Cir., 1999) ("Consumer confusion would undoubtedly dilute the distinctive selling power of a trademark") and Tri-Star Pictures, Inc. v. Unger, 14 F. Supp. 2d 339 (S.D.N.Y. 1998) (the presence of confusion is relevant to showing dilution) *with* OBH, Inc. v. Spotlight Magazine, Inc., 86 F. Supp. 2d 176 (W.D.N.Y. 2000) (declining to decide a dilution claim after determining that a likelihood of confusion exists) and RESTATEMENT (THIRD) OR UNFAIR COMPETITION § 25 (comment f) (consumers' mental state under dilution "in not that which serves as a the basis for liability for trademark infringement").

[18] Moseley v. V Secret Catalogue, Inc., 537 U.S. 418 (2003).

Perhaps it is because a dilution theory of trademark protection is a departure from trademark law's traditional goals that Congress limited the remedy for dilution to injunctive relief.[19]

On its face, dilution looks like a relatively strong form of trademark protection. Dilution is a more exclusionary version of the trademark entitlement than the classic likelihood-of-confusion variant. If we arrayed all the possible variations of the propertarian forms of protection along a spectrum ranging from nuanced and contingent use-based forms at one end to Blackstonian-style exclusionary forms at the other, dilution would be closer to the exclusionary end than would the classic likelihood-of-confusion variant.[20] Dilution law creates relatively stronger duties of avoidance of protected marks, whereas classic trademark infringement creates weaker duties of avoidance that are more nuanced and context-contingent. To make an analogy, if classic trademark infringement can be analogized to the law of nuisance in real property, dilution has more trespass-like elements. For famous marks at least, one would expect dilution to be the more powerful theory of trademark protection.

In order to be dilutable, a trademark must first be famous, but what exactly it takes for a mark to be famous is not clear.[21] Similarly, there is no single accepted definition of dilution.[22] Indeed, courts are defining dilution in several different ways, two of which are interpretations imported from sixty-odd years of state dilution law. The fact that dilution's harm is ill-defined may be contributing to the apparent unwillingness of courts to grant relief. Causation seems to be working the other way as well. Courts are changing the definition of dilution over time to make relief harder to obtain. For now consider dilution to be the claim by firm A that firm B has

[19] See 15 U.S.C. § 1126(c)(2) (stating that "the owner of a famous mark shall be entitled only to injunctive relief" unless the accused infringer acted willfully).

[20] I locate dilution *relatively* closer to the exclusionary end than the classic trademark form because dilution is not composed purely of bright-line rules. (What entitlement is?) See Robert C. Ellickson, Property in Land, 102 Yale L.J. 1315, 1362-63 (1993) (discussing the exclusionary "Blackstonian" bundle of rights), Thomas W. Merrill & Henry E. Smith, What Happened to Property in Law and Economics?, 111 Yale L.J. 357, 392-94 (2001); Clarisa Long, Information Costs in Patent and Copyright, 90 Va. L. Rev. 465 (2004) (discussing exclusionary rules in intellectual property); Henry E. Smith, Exclusion versus Governance: Two Strategies for Delineating Property Rights, 31 J. Legal Stud. S453 (2002) (discussing exclusion and governance).

[21] Congress left this question open. See 15 U.S.C. § 1125(c)(1) ("In determining whether a mark is . . . famous, a court may consider factors such as, but not limited to . . . ").

[22] See, e.g., Moseley v. V Secret Catalogue, Inc., 537 U.S. 418, 430 (2003) (mentioning blurring and tarnishment as theories of dilution).

used a trademark that is the same as or similar to A's and that B's use has "lessen[ed] the capacity of [A's] mark to identify and distinguish goods or services" as a result.[23] In one oft-cited formulation, dilution is the "gradual whittling away . . . of the identity and hold upon the public mind of . . . [a] mark or name by its use upon non-competing goods."[24]

Whether dilution protection results in an overall increase or decrease in social welfare in any particular case is an empirical question. But at least we can theorize circumstances under which we would expect the social benefits of enforcement to be positive or negative.

Assume the value of a trademark stems from two sources. First, trademarks serve as source-identifiers for consumers and thereby reduce consumer search costs. Recall that classical trademark theory is directed at protecting this source of trademark value. Producers of competing goods differentiate their goods in various ways, often by varying the attributes of the good. For example, Coke has more orange-flavored undertones based while Pepsi tends toward lemon-based notes. Coke has a higher degree of carbonation whereas Pepsi is sweeter.[25] Some of the attributes of goods are readily observable; others cannot be assessed simply by inspection of the good. On this view, the less readily observable the product attributes, the greater the social value of trademarks. Because a trademark can be used by consumers as a proxy for a set of hard-to-measure product attributes, the identification function of trademarks is especially important for experience goods, or goods that yield information about their qualities over time. For example, a particular model of car is an experience good because latent defects or performance advantages generally become apparent only after purchasers have used the car for some time. By contrast, inspection goods such as produce readily yield information about their attributes, often by casual observation. Trademarks are less valuable in reducing search costs for inspection goods. On this view, consumer benefit and by extension social benefit is enhanced by making sure that when consumers rely on source identifiers, such marks are not used in a

[23] 15 U.S.C. § 1125(c)(1).

[24] Frank I. Schechter, The Rational Basis of Trademark Protection, 40 Harv. L. Rev. 813, 825 (1927).

[25] See F.J. Thumin, Identification of Cola Beverages, 46 J. App. Psych. 358 (1962) for a discussion of the differences between Coke and Pepsi drinks and an example of how a consumer taste test is performed.

confusing manner. The social cost is that competitors of a trademark holder occur avoidance costs; they must create their own nonconfusing trademark.

Second, trademarks are valuable for the goodwill they embody. Goodwill is the value dilution law attempts to protect. Consumers come to have opinions about the products they consume or encounter and by extension about the trademarks associated with these products. These opinions can influence their future purchasing decisions about products associated with the trademark. If the opinions are positive the trademark holder stands to reap the benefit, so long as it can continue to control the way in which the mark is used. On this view, conferring on trademark holders the power to exclude third parties from nonconfusing uses of the marks allows mark owners to reap the benefits of their investment in product quality and prevents free-riding. Dilution law used to enjoin counterfeit goods is an example of dilution law creating a net social benefit. On this view, even assuming consumer confusion is not an issue, the social benefits from falsely labeling a generic watch ROLEX are likely to be outweighed by the social costs resulting in the diminution in value of the mark when attached to a real ROLEX brand watch.

The net costs of such control over a trademark must be weighed against the net benefits. If for example trademark holders were allowed to enjoin truthful criticism or discussion of their trademarks by others, this would create a social cost in the form of diminished truthful speech. Recognizing this, the dilution statute creates privileges for comparative advertising by competitors using the trademark, for media use of the trademark, and for noncommercial use of the mark.[26] But even with these limitations, the social costs of dilution law may still exceed the social benefits of allowing producers to internalize consumer goodwill. For example, noncomparative speech involving the trademark, such as parody, is not covered by a statutory privilege. If trademark holders were allowed to shut down parodic or critical speech involving the mark, dilution law may prove to create a net social loss. Another example of the social costs of dilution law having the potential to exceed the social benefits is if the net avoidance costs incurred by other producers attempting to avoid the mark exceed the value of the goodwill

[26] 15 U.SC. § 1125(c)(4) (2000).

reaped by the mark holder. Yet another example of a potential social welfare loss arises because strong trademark protection can create servitudes on goods.

I will revisit the cost-benefit analysis surrounding dilution law in more detail later, and discuss these and other problems in more detail. But before I do, let me present the results of my study of judicial enforcement rates.

## II. JUDICIAL ENFORCEMENT

I started by testing how often dilution claims were successful. Specifically, I wanted to test how often trademark holders were succeeding in getting injunctive relief for the alleged dilution of their trademarks by others. Because an injunction is the only available remedy for a dilution claim and because the grant of an injunction is more readily verifiable and less variable than the assessment of damages, examining the presence and rate of injunctive relief is a replicable and objective data point to measure.

If dilution law is really as powerful as its reputation would suggest, we might expect to see dilution being asserted as a theory of infringement in a significant percentage of all trademark infringement cases. I examine federal dilution cases in this Part. My data sets cover both reported decisions and trademark filings generally. In Part A I examine reported cases and show that judicial enforcement has decreased over time. In Part B I expand my data set to include unreported dilution filings for comparison with reported results and show that the reported results do not differ from the results in unreported filings. In Part C I begin to explore some of the reasons we might see the general trends derived from these data sets.

### A. Reported Cases

To get a sense of the reasons asserted by judges for granting or denying relief on dilution claims I first compiled all reported opinions involving dilution law that had been brought in federal district and circuit court.[27] I eliminated instances of double counting to make the unit of measurement cases rather than opinions. I then eliminated all cases in which dilution was merely discussed but not explicitly asserted as a claim and all cases in which dilution claims were brought purely under state law.[28] From this set of cases I eliminated those brought under provisions of the Lanham Act other than the FTDA involving the use of the trademark in a domain name. Specifically, I excluded cases *solely* alleging the unauthorized use of a trademark as part of an internet domain name or "cybersquatting" brought pursuant to the Anticybersquatting Consumer Protection Act (ACPA).[29] Here's why.

Classic cybersquatting cases involve a person registering a domain name containing a trademark in the hope of reselling the domain name to the trademark holder. An example is a person not associated with the Panavision corporation registering the domain name "panavision.com."[30] Because PANAVISION would most likely be declared a famous trademark and because the individual is using the trademark PANAVISION in a domain name without Panavision's permission, Panavision can bring a trademark dilution claim. Alleged cases of cybersquatting, however, can involve defendants who are ultimately declared legitimately to own a domain name containing the defendant's trademark, such as if Farmer McDonald registered the domain name "mcdonalds.com," or if a disgruntled cola drinker registered "pepsisucks.com."[31]

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[27] I chose the time period of January 16, 1996 and July 16, 2004, inclusive. Congress passed the FTDA in December 1995. President Clinton signed it into law on January 16, 1996. Pub. L. No. 104-98, 109 Stat. 985 (January 16, 1996).

[28] Twenty-seven states have enacted statutes aimed at preventing dilution and one state has adopted dilution as part of its common law. The states that have codified antidilution law are: Alabama, Arkansas, California, Connecticut, Delaware, Florida, Georgia, Idaho, Illinois, Iowa, Louisiana, Maine, Massachusetts, Minnesota Missouri, Montana, Nebraska, New Hampshire, New Mexico, New York, Oregon, Pennsylvania, Rhode Island, South Carolina, Tennessee, Texas, and Washington. Michigan, New Jersey, and Ohio have recognized dilution as part of their common law. See Ameritech, Inc. v. American Info. Technologies Corp., 811 F.2d 960, 965 (6th Cir. 1987); Chanel, Inc. v. Casa Flora Co., 241 A.2d 24 (N.J. Super. Ct. 1967); O. M. Scott & Sons Co. v. Surowitz, 209 F. Supp. 59 (E.D. Mich. 1962) (issuing an injunction on the basis of dilution claims brought in conjunction with likelihood-of-confusion claims).

[29] 15 U.S.C. § 1125(d)(1)(A) (2000).

[30] See, e.g., Panavision Int'l v. Toeppen, 141 F.3d 1316 (9th Cir. 1998) (registration of the domain name "panavision.com" by an individual not connected with the Panavision corporation found to be cybersquatting). Mr. Toeppen demanded $13,000 from Panavision in exchange for transfer of the domain name. Id.

[31] See www.pepsisucks.com. Lest anyone miss the point, the site prominently states: "This site is not affiliated or endorsed in any way by PEPSI."

Alleged dilution of trademark domain names can be challenged under both the ACPA and the FTDA. I excluded cybersquatting cases brought pursuant to the ACPA but not the FTDA primarily because ACPA cases are not a representative sample of dilution cases involving internet domain names. First, the legal requirements for dilution under the ACPA are significantly different from those of the FTDA.[32] Second, most ACPA dilution disputes are resolved by a specially created arbitration system, so the ACPA cases that do get litigated are unusual. The Internet Corporation for Assigned Names and Numbers (ICANN) has established a Uniform Domain Name Dispute Resolution Policy (UDRP) that creates a special arbitration system for resolving ownership of, and thereby trademark disputes over, internet domain names.[33] Significantly more disputes involving the unauthorized use of a trademark in a domain name are settled through ICANN's approved arbitrators than are brought in federal court.[34] Arbitration of domain names is generally cheaper and faster than litigation in federal district court.[35] Plaintiffs who chose federal district court over arbitration are choosing the less common and more expensive route. They also are choosing the statistically less favorable option, because trademark holders are more likely to prevail in arbitration than in litigation.[36]

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[32] Among other things, the ACPA requires bad faith whereas the FTDA does not. See 15 U.S.C. § 1125(d) (requiring "a bad faith intent to profit").

[33] See http://www.icann.org/dndr/udrp/policy.htm (last visited July 12, 2004) (setting forth the Uniform Domain Name Dispute Resolution Policy). The current "Approved Providers for Uniform Domain-Name Dispute-Resolution Policy" are: Asian Domain Name Dispute Resolution Centre, CPR Institute for Dispute Resolution, The National Arbitration Forum, World Intellectual Property Organization. See http://www.icann.org/dndr/udrp/approved-providers.htm (last visited July 12, 2004).

[34] For instance, the National Arbitration Forum, which handles the bulk of the arbitrated disputes involving domain names in North America, resolved 3999 disputes under the UDRP in the four and a half years between December 23, 1999 (the day the NAF started accepting disputes) and July 12, 2004. Many of these involved trademark disputes over multiple domain names. See, e.g., Cable News Network v. Khouri, Claim No. FA0208000117876 (N.A.F. 2002) (transferring 322 domain names containing the trademark "CNN").

[35] Litigation costs for the median trademark infringement cases brought in federal court are estimated at $298,000 when less than one million dollars was at risk, at $602,000 where one million to twenty-five million dollars was at risk, and at $1,006,000 where more than twenty-five million dollars was at risk. See AMERICAN INTELLECTUAL PROPERTY LAW ASSOCIATION, REPORT OF THE ECONOMIC SURVEY 2003, at 94-95 (Table 22, Estimated Costs of Litigation). By contrast, NAF's fees generally tend to run from $400 for small claims to $25,000 for claims exceeding ten million dollars. See http://www.arbforum.com/code/appx-c.asp (Code of Procedure, Appendix C, Fee Schedule).

[36] The NAF has transferred domain names to complainants 77.64% of the time, or in 3105 out of 3999 disputes brought between December 23, 1999 when the NAF started accepting disputes, and July 12, 2004. See generally ICANN, Statistical Summary of Proceedings Under Uniform Domain Name Dispute Resolution Policy, at http://www.icann.org/udrp/proceedings-stat.htm (providing UDRP statistics).

Given that arbitration is cheaper, faster, and more favorable to plaintiffs, an interesting question is why trademark holders ever litigate over domain names in federal court, either under the ACPA or under the FTDA. One reason trademark holders sometimes prefer litigation to arbitration may have to do with the nature of the remedy. Although the UDRP vests ICANN's approved arbitrators with the authority to transfer the ownership of domain names from one party to another, when a respondent engages in a consistent practice of registering and then selling domain names containing others' trademarks, arbitrators will not be able to provide effective relief.

### *1. Federal courts*

Having compiled a set of reported dilution cases, I started with the simplest of inquiries: How many reported cases resulted in the trademark holder getting relief on its dilution claim and how are these results distributed over time? Note that the trademark holder still may have been able to prevail on a different theory of trademark infringement; I am only attempting to determine the frequency of relief specifically related to dilution claims.

Since an injunction is the only available relief for a dilution claim, I defined relief as instances in which the trademark holder walked away with injunctive relief that stuck. This includes instances in which the trademark holder was granted summary judgment on the dilution claims, or was granted a preliminary injunction on the dilution claims and the parties settled before trial,[37] or received permanent relief after trial. If the district court granted a preliminary injunction and then failed to give permanent relief on dilution claims in cases that went to trial, I did not count this as a favorable outcome for the trademark holder on the dilution claim. I eliminated from the sample any ongoing cases in which relief has so far been denied.[38] This included ongoing district court cases in which a preliminary injunction had been denied, because permanent relief may still be granted if the case goes all the way to trial. Similarly, I eliminated

[37] See, e.g., Nailtiques Cosmetic Corp. v. Salon Sciences Corp., 41 U.S.P.Q.2d (BNA) 1995 (S.D. Fla. 1997).
[38] As of July 16, 2004.

any ongoing appeals involving dilution claims for which permanent injunctive relief had been denied by the district court, because such a decision may reversed on appeal. I present the results below.

**Table 1: Rates of Relief on Dilution Claims in Reported Cases**

| | **# of reported dilution cases** | **Cases in which relief was granted on a dilution claim** | **Rate of relief** |
|---|---|---|---|
| Jan.-July 2004 | 17 | 1 | 5.88% |
| 2003 | 39 | 6 | 15.38% |
| 2002 | 54 | 12 | 22.22% |
| 2001 | 46 | 12 | 26.09% |
| 2000 | 58 | 18 | 31.03% |
| 1999 | 51 | 15 | 29.41% |
| 1998 | 55 | 19 | 34.55% |
| 1997 | 35 | 13 | 37.14% |
| 1996 | 21 | 11 | 52.38% |
| **Total** | 376 | 107 | |

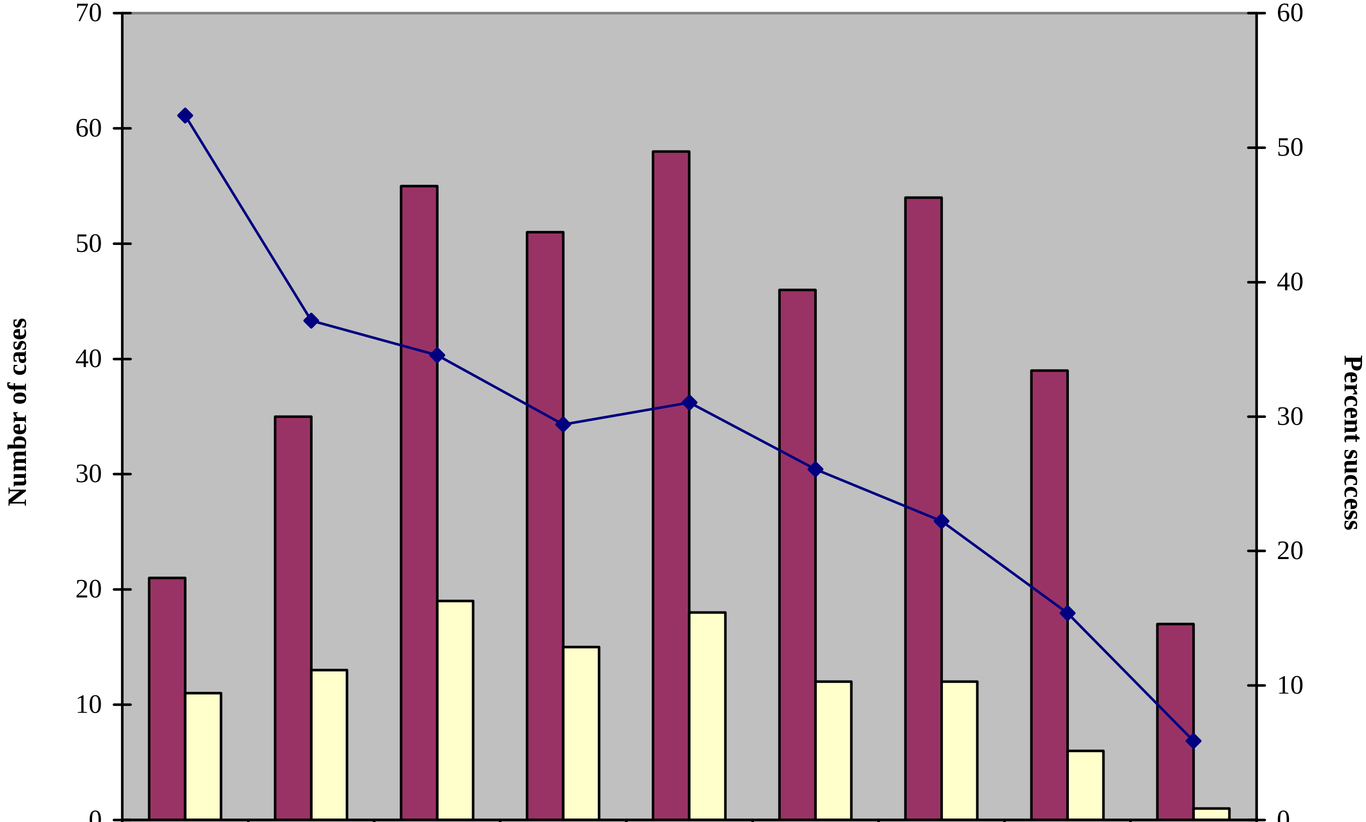
There were a total of 376 reported cases in my sample covering eight and one-half years (the period in which the FTDA has been in force). In most of these cases, dilution was asserted as one of several claims. I was careful to eliminate from the sample any cases in which injunctive relief had been granted but for which it was not possible to determine whether relief had been granted on dilution or on some other claim.[39] There were a very small number of such cases -- no more than a half-dozen -- and they were randomly distributed throughout the relevant time period. Although excluding unclear cases pushes down the apparent rate of injunctive relief in my sample, there were so few unclear cases that excluding them did not markedly change the overall distribution of results. I present the data below in Graph 1.

The results show that the rate at which trademark holders have been able to get injunctive relief on their dilution claims in district court has generally been dropping over time from an initial success rate of 52.38% in 1996 to 5.88% for the first half of 2004.

[39] See., e.g., Te-Ta-Ma Truth Found.--Family of URI, Inc. v. World Church of the Creator, 297 F.3d 662 (7th Cir. 2002). In this opinion, Judge Easterbrook reverses a denial of relief for the plaintiff on its trademark claims, of which dilution is one and remands with instructions to enter relief for plaintiff, but doesn't specify whether this is because the mark is diluted.

Confining the measure of success on dilution claims to instances of judicial enforcement is arguably a narrow definition of success. In particular, it counts as a failure instances in which the trademark holder was not able to get a preliminary injunction and the case terminated before trial. Such a result, although not a success in getting injunctive relief, may not be a failure for the trademark holder either. If the case was terminated in the absence of an injunction because the trademark holder dropped it, then the result is likely not a favorable one for the trademark holder. But if the case was terminated because the parties settled in the absence of an injunction, one could treat the settlement as a half-success for the trademark holder. Half-successes from settlements in cases that terminate in the absence of a preliminary injunction are not measured in my results; instead they are counted as failures. Parties' private satisfaction with settlement results, however, is a variable that could not meaningfully or reliably be measured.

**Figure 1: Number of dilution cases and percent success**




| Year | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 (Jan.-July) |
|---|---|---|---|---|---|---|---|---|---|
| Number of reported cases | 21 | 35 | 55 | 51 | 58 | 46 | 54 | 39 | 17 |
| Injunctions granted | 11 | 13 | 19 | 15 | 18 | 12 | 12 | 6 | 1 |
| % Success | 52.38 | 37.14 | 34.55 | 29.41 | 31.03 | 26.09 | 22.22 | 15.38 | 5.88 |

### *2. State courts*

Because state courts have concurrent jurisdiction over claims brought under the Lanham Act,[40] I next searched for cases involving assertion of a dilution claim brought in state court under the Lanham Act since the passage of the FTDA. Once again, I eliminated all cases in which dilution was merely discussed but not explicitly asserted as a claim and all cases involving the use of the trademark in a domain name. There were no reported cases left after I imposed these parameters. Thus we can conclude that state courts are not playing a significant role in the enforcement of dilution claims and the development of federal dilution law.

## B. Filings

The cases I examined for my preceding results were reported decisions. Reported decisions are issued in only a fraction of all the cases brought. Although a survey of reported cases can produce a rough assessment of the kinds of results actually being obtained in dilution trials, we cannot necessarily assume that it is a representative sample of the total number of dilution cases brought without testing the representativeness of the sample.[41] I next set out to test the representativeness of the reported cases by comparing them against the results obtained from unreported dilution filings.

### *1. Total dilution filings*

I wanted to find the percentage of filings that contained a dilution claim. Nobody really seems to know what percentage of trademark infringement suits involve dilution claims, but one previous estimate -- albeit in a slightly different context -- was that dilution would be asserted in 30-40% of all challenges to trademark registrations before the Patent and Trademark Office.[42]

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[40] See 15 U.S.C. § 1121(a) (providing for concurrent jurisdiction); see also 28 U.S.C. § 1338(a) (jurisdiction statute).

[41] See Lee Epstein & Gary King, The Rules of Inference, 69 U. Chi. L. Rev. 1 (2002).

[42] See Statement of Q. Todd Dickinson, Acting Assistant Secretary of Commerce and Acting Commissioner of Patents and Trademarks at 1 (May 5, 1999) (internal Patent and Trademark Office studies showed 36% of the proceedings to oppose or cancel trademarks could potentially include a dilution claim).

My first step was to examine public records available from the Administrative Office of the United States Courts ("AO") to determine the total number of cases labeled as trademark cases for each year from 1996 to 2004. The AO compiles statistics on all cases filed and terminated in the federal courts. The data can be organized by subject matter and district. In the case of trademark infringement, the AO's code is "840." Thus "trademark infringement filings" in this paper refers to cases coded "840" by the AO.[43] From January 16, 1996 to July 16, 2004, there have been 30070 filings labeled as trademark infringement cases by the Administrative Office.[44] A breakdown of these filings appears in Appendix A.

[From the group of 30070 trademark cases filed in the relevant time period, I am currently in the process of constructing a sample to determine how often dilution is asserted. To date, I have been able to verify that a federal dilution claim that was not solely a claim of domain name dilution was pleaded in 426 cases out of a sample of 5525, or 7.71% of the time.]

Several things may affect the composition of my sample of dilution filings. Since one of the parameters I used was a filing date of January 16, 1996 or later, my sample does not include cases filed before January 16, 1996 whose pleadings were later amended to include a dilution claim. This may result in an underrepresentation of dilution cases for 1996 (and perhaps, although less so, for 1997) but is unlikely to be a problem for years after that. Also my results do not include cases in which dilution was asserted as a counterclaim by the defendant. This may also result in an undercount of dilution filings. Because of the nature of dilution law and its fame requirement, however, I do not expect that defendants will make dilution counterclaims frequently.

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[43] Although the AO defines the cases coded as "840" as "trademark" cases, they are actually only trademark infringement cases, and do not include appeals of administrative proceedings by the Patent and Trademark Office.

[44] For data from 1996 through 2003, see ADMINISTRATIVE OFFICE OF THE U.S. COURTS, STATISTICAL TABLES FOR THE FEDERAL JUDICIARY, Table C-4, vols. 1996-2003. Data for 2004 were obtained from the Public Access to Court Electronic Records (PACER) database. Data were not available for the District of Alaska and the District of New Mexico.

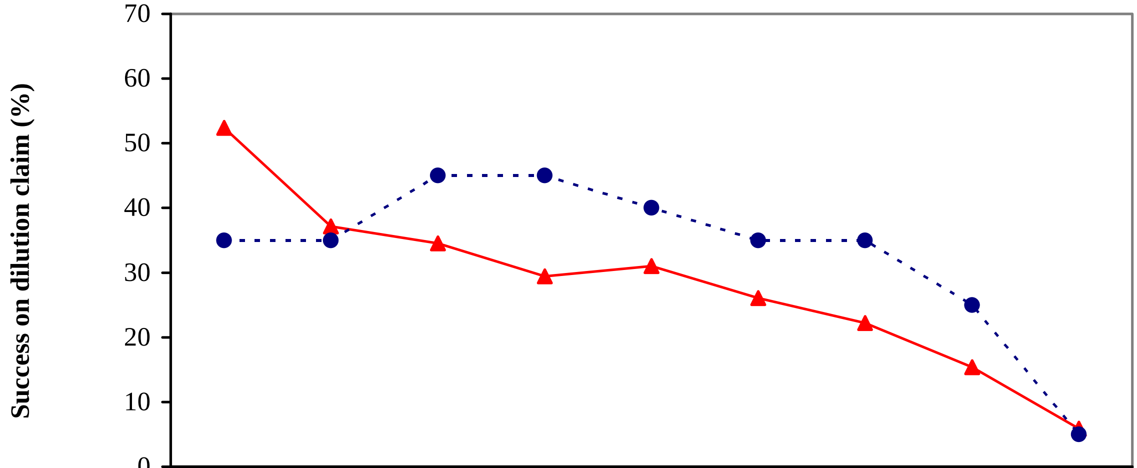
### *2. Enforcement rates in unreported dilution filings*

I next needed to test whether my set of reported cases was a representative sample of dilution filings generally. From sample of trademark infringement filings for which dilution was asserted as a claim, I selected at random twenty cases for each year from 1996 to 2004. I identified each filing by docket number to minimize bias.[45] If a selected filing had a reported opinion that I counted previously, I discarded the filing and randomly drew another. Similarly, if the result on the dilution claim was ambiguous, I discarded the filing, and replaced it with another filing drawn at random. As an example of an ambiguous result, in one case the docket records that both sides moved for summary judgment on the dilution claim, then later indicates that summary judgment was granted on the dilution claim, but is not clear as to which side prevailed on summary judgment.[46] Nominally this counts as a success under my criteria, but since I couldn't tell which side won, I discarded from this particular inquiry. I present the comparison of unreported filings with reported cases in Figure 2 below.

[45] When drawing filings, I identified each one by docket number rather than party name so as to avoid one form of bias. Had I selected cases by party name, I could potentially have been biased however unconsciously to choose cases with well-known party names. Parties with well-known names are more likely to have famous trademarks, and famous trademarks are more likely, all else equal, to prevail in dilution claims.

[46] Amicus Communication v. Hewlett-Packard, No. 5:98cv01176 (W.D. Tex. filed Dec. 23, 1998).

**Figure 2: Comparison of Success Rates in Reported Cases and Unreported Filings**




| Year | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 (Jan.-July) |
|---|---|---|---|---|---|---|---|---|---|
| Reported | 52.38 | 37.14 | 34.55 | 29.41 | 31.03 | 26.09 | 22.22 | 15.38 | 5.88 |
| Unreported | 35 | 35 | 45 | 45 | 40 | 35 | 35 | 25 | 5 |

I looked to see whether relief was granted on the dilution claim(s) by examining the docket for each case. As with my set of reported cases, I defined relief as including instances in which the trademark holder was granted summary judgment on the dilution claims, or was granted a preliminary injunction on the dilution claims and the parties settled before trial, or received permanent relief. If the district court granted a preliminary injunction and then failed to give permanent relief on dilution claims in cases that went to trial, this does not count this as a favorable outcome for the trademark holder on the dilution claim.

The outcomes in the reported cases and the unreported filings follow roughly the same pattern. In both the reported cases and the set of unreported filings, injunctive relief starts out being granted at a higher rate and then drops over time. Injunctions are denied with greater frequency in the set of reported cases, but from 1998 to 2004, results in the set of unreported filings generally track the results from the set of reported cases, albeit with a lag.

### *3. Jury trials*

I wanted to test whether jury trial results were different from bench trial results for dilution claims. Nationwide, 522 trademark infringement cases (reported and unreported) have reached trial from 1996-2003 inclusive.[47] Of these, 227 cases, or 43.49%, have been tried to a jury.[48] Because dilution is one theory of infringement, not all these trademark infringement jury trials will involve dilution claims. Of the trademark infringement cases that do result in a jury trial, the jury may still not get to decide the dilution claim because of the nature of relief.[49] Nonetheless there clearly have been a small handful of dilution cases tried to a jury since 1996. As near as I can tell from examination of the dockets of dilution filings, there have been only five trials in which the jury was allowed to decide the dilution claim. Juries found dilution to have occurred in two of those cases. This is too small a sample for juries to have a significant effect on enforcement rates of dilution claims. It is also too small a sample to draw any robust conclusions comparing juries' preference for dilution claims with judges'.

## C. Why the Changing Pattern of Enforcement?

The number of published dilution cases in which relief has been granted and upheld if appealed in the past eight and a half years is smaller than one might have expected given the wording of the statute. The number of injunctions granted has been dropping over time as well.

One question that might come to mind is why trademark holders would bring dilution claims if the expected rate of relief on the dilution claim was significantly less than fifty percent. According to the Priest-Klein hypothesis, the tendency of either side to prevail at trial will

[47] This number can be derived by adding up the number of trademark cases reaching trial for each year from 1996 to 2003, inclusive. See Administrative Office of the U.S. Court, Statistical Tables for the Federal Judiciary, vols. 1996-2003.

[48] This number can be obtained by adding up the number of trademark jury trials for each year from 1996 to 2003, inclusive. See id.

[49] "[W]here only an injunction is available to remedy dilution, the Seventh Amendment does not compel a jury trial." Ringling Bros.-Barnum & Bailey Combined Shows, Inc. v. Utah Div. of Travel Dev., 955 F. Supp. 598, 603 (E.D.Va.1997). As the court in *Ringling Brothers* observed: "[T]he Act's pertinent language makes clear the essentially equitable nature of the dilution claim and therefore reflects Congressional intent to commit the dilution cause of action to a court without a jury." 955 F. Supp. at 599-600 (citations omitted).

approach fifty percent as the number of cases going to trial approaches zero.[50] Priest and Klein assume that the litigating parties engage in cost-benefit analysis, estimate their likelihood of success, and calculate in their transaction costs.[51] According to this hypothesis, the parties may make cognitive and other errors, but the model assumes that the errors are random and are not based on asymmetric information. When the empirical evidence departs significantly from 50%, one would expect the parties to settle. Although the Priest-Klein hypothesis has come under fire,[52] it is a model in which damages are stipulated and only equitable relief is in issue. Because the only relief that can be granted for dilution is equitable, the Priest-Klein hypothesis might appear particularly apropos. Why, then, might we see significant departures from a 50% success rate for trademark holders?

### *1. Evolution in case quality*

One hypothesis could be that the easiest dilution cases were brought first. On this theory, there may have been a pent-up demand for a statute that would make it easier to sue free-riders in cases where consumers were not confused about whose trademark was whose. Perhaps the obvious instances of trademark dilution were disposed of in the first few years after passage of the FTDA; now more marginal cases are being brought. If it really is the case that the quality (if you will) of dilution cases is dropping over time, then all else equal we would expect to see rates of injunctive relief correspondingly dropping over time.

Although it is possible that most of the strong dilution cases were brought first, I don't think such an explanation has much traction here. Indeed, my read of the published opinions leads me to conclude that the average quality of dilution claims has risen over time. Recall that famousness is a requirement of the statute. The famousness of marks in most recent cases (2001-2004) seems less questionable than in earlier cases (1996-1997). The few dilution cases in

[50] George L. Priest & Benjamin Klein, The Selection of Disputes for Litigation, 13 J. Legal Stud. 1, 19-20 (1984).

[51] Id. at 4.

[52] See, e.g., Kevin M. Clermont & Theodore Eisenberg, Trial By Jury or Judge: Transcending Empiricism, 77 Cornell L. Rev. 1124, 1175-76 (1992) (asserting that the assumptions of the Priest-Klein hypothesis are crucial); Daniel Kessler et al., Explaining Deviations from the Fifty Percent Rule: A Multimodal Approach to the Selection of Cases for Litigation, 25 J. Legal Stud. 233, 257 (1996) (same).

which injunctive relief has been granted in recent years without exception involve marks that are more obviously famous in the sense of being known to a nationwide audience, such as GENERAL MOTORS and NIKE.[53] The dilution claims for which injunctive relief was granted in the early years of the statute did not always involve the kinds of marks one might expect to be declared famous. Examples include INTERMATIC, GAZETTE, NAILTIQUES, TELETECH, WAWA, and various variations on PAPAL VISIT 1999.[54] Similarly, the cases brought (not just won) in the early years seem to involve a higher percentage of marks of marginal fame or merely niche market fame. Over time the average fame of the marks being litigated has been increasing, and the quality of cases along this margin of measurement has been rising. But if fewer marginal-quality dilution cases have brought in recent years then we might expect to see injunctive relief rates approach something closer to 50%. If the average quality of dilution cases (measured by the recognizability of the mark) appears to be rising yet injunction rates are still falling, perhaps other factors are at work.

### *2. Dilution as a makeweight*

Parties probably aren't calculating their likelihood of success on the basis of their dilution claims. Dilution claims are almost always brought in conjunction with other trademark claims. Most often these will be classic infringement claims: the defendant is alleged to be using the trademark in a way that is likely to cause confusion among consumers. Thus one possible explanation for dilution claims still being brought despite a less-than-even chance of success is that trademark owners don't expect dilution claims to do the heavy lifting. On this theory, parties

[53] See, e.g., General Motors Corp. v. Autovation Techs., Inc., 2004 U.S. Dist. LEXIS 8156 (E.D. Mich. 2004); Nike Inc. v. Variety Wholesalers, Inc., 274 F. Supp. 2d 1352 (S.D. Ga. 2003).

[54] Archdiocese of St. Louis v. Internet Entertainment Group, Inc., 34 F. Supp.2d 1145 (E.D. Mo., 1999) (issuing preliminary injunction forbidding defendants from using 'Papal Visit 1999,' 'Pastoral Visit,' '1999 Papal Visit Commemorative Official Commemorative Items,' and 'Papal Visit 1999, St. Louis' or any colorable variation thereof"); Nailtiques Cosmetic Corp. v. Salon Sciences Corp., 41 U.S.P.Q.2d 1995, 1998-99 (S.D. Fla. 1997) (case apparently settled after court declared "Nailtiques" most likely diluted by "Pro-Techniques" in order granting preliminary injunction); TeleTech Customer Care Management (California) v. Tele-Tech Co., 977 F. Supp. 1407, 1413 (C.D. Cal. 1997) (finding "TeleTech" likely infringed by "teletech.com" but not by "tele-tech.com"); Gazette Newspapers v. The New Paper, Inc., 934 F. Supp. 688, 693, 696 (D. Md. 1996) (finding "Gazette" famous for local Maryland paper); Intermatic, Inc. v. Toeppen, 947 F. Supp. 1227, 1236 (N.D. Ill. 1996) (declaring "Intermatic" famous for electrical products); Wawa, Inc. v. Haaf, 40 U.S.P.Q.2d 1629, 1630 (E.D. Pa. 1996) (holding "Wawa" famous for convenience stores in Pennsylvania and surrounding states).

are predominantly using classic trademark infringement claims to calculate their ultimate outcome; dilution is just a fillip on the side.

This is not to say that parties are bringing dilution claims lightly. Recall that most trademark infringement plaintiffs do not assert dilution claims at all. So dilution simply is not an issue for most plaintiffs, or else the potential costs of bringing a dilution claim are too high.

Assertion of a dilution claim presents potential positive costs. Risk averse trademark holders who expect they will be repeat players in trademark enforcement actions have incentives not to bring marginal dilution claims. Because one of the requirements for success on a dilution claim is that the mark be famous, a trademark holder who loses a dilution claim for lack of a famous mark is unlikely to succeed on any other dilution claim involving that mark in the foreseeable future. (The converse is also true: a trademark holder whose mark is declared famous in one suit can use that fact in later suits to bolster its chances of recovering on a dilution claim.) Trademark holders who own marks with emerging but not yet solidified fame are likely to think twice before asserting a dilution claim.

### *3. Legal evolution*

In the years since dilution was added to the Lanham Act, more than just judicial enforcement rates have dropped. Judicial enthusiasm for dilution as a theory of infringement has diminished sharply as well. In the process, interpretation of dilution law has changed substantially. Indeed, perhaps the most noticeable evolution in dilution law over time is the degree to which courts have progressively interpreted the statute so as to make injunctive relief harder to obtain. I believe this more than anything else explains the diminishing success rate of dilution claims in reported and unreported cases generally. For years, each circuit has in its own way pushed the evolution of dilution law along. The outcome across most circuits is substantially the same: over time dilution claims have become harder to win. But from 1996 to 2003 the variance in interpretation across circuits over time increased rather than decreased.

Some order was brought to the blossoming variety of interpretation of dilution law in 2003 when one of the numerous mechanisms the various circuits had developed for reining in many dilution claims finally worked its way up to the Supreme Court. *Moseley v. V Secret Catalogue, Inc.* put a damper on most dilution claims by establishing that trademark holders must prove actual harm rather than a likelihood of harm.[55] Nonetheless, dilution law is still evolving and varies from circuit to circuit. Parties appear to be adjusting to the changes the law. With dilution law having evolved during that time in different ways and at different rates in each circuit, however, adjustment is incomplete.

## III. IMPLICATIONS

On its face, dilution appears to be a powerful form of trademark protection, which may be one source of its fearsome reputation. But appearances belie the reality, at least as to relief in recent years. In the early years of federal dilution law, courts often enforced the statute as written. Over time, however, they have looked upon dilution claims with increasing disfavor. Courts have not just been progressively declining to enforce dilution claims to a greater degree; they have been busy creating statutory limitations and erecting barriers to recovery, thereby assuring that the results will stick.

In this Part, I explore some of the implications of dilution law. I first consider the social welfare calculation surrounding this form of trademark protection. Then I turn to some of the factors that I believe underlie the judiciary's discomfort with dilution show how they help explain some of the results we see.

### A. Efficiency Implications of Dilution Theory

Why are judges so chary of dilution law? With a few exceptions, they haven't articulated clearly why. Often they are reduced to justifying denial of relief with such statements as, "the interests here are not the interests at the core of what Congress intended to protect in the

[55] 537 U.S. 418 (2003).

FTDA"[56] or "we think it highly unlikely that Congress intended to extend to [weaker] marks the expanded rights conferred by the Dilution Act."[57] If is almost as if judges can sense indirectly the existence of problems created by dilution law even if they can't define the sources of tension clearly. At the same time, however, courts do recognize that dilution as a form of protection is not entirely without benefits. On the one hand judges are expressing increasing nervousness with existing theories of dilution, which were imported from state law and never really fit federal trademark protection well, but on the other hand they are also balking at applying a misappropriation theory of dilution law, which more closely comports with the statutory wording.

There is a discrete set of instances in which the benefits of the dilution form of protection outweigh the costs, but larger set of circumstances in which dilution law creates a net social cost. Thus it becomes important not just to confine enforcement to social-welfare enhancing instances, but also to recognize the forces that will push cases in one direction or the other. As written, however, the dilution statute contains few mechanisms to separate welfare-enhancing from welfare-diminishing cases. Justifications for allowing recovery in one circumstance but not another must often require adjudicators to look outside the (few) limitations of the statute.

Let me try to identify at least one set of circumstances when dilution law is welfare-enhancing. The net social benefits of dilution enforcement will often outweigh the net social costs when a third party is using a counterfeit mark. This is not to say that counterfeiting is the only instance when the costs of allowing infringement under a dilution theory will outweigh the benefits, just that it is a readily identifiable one. By the term "counterfeit marks" I mean when a competitor deliberately puts a trademark holder's mark on merchandise not produced by the mark holder in order to benefit from the goodwill and positive image surrounding a legitimate mark.

First let's consider the harms and benefits to trademark holders from the unauthorized use of their mark on another's goods. The costs to trademark holders can range from a positive cost,

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[56] I.P. Lund Trading ApS v. Kohler Co., 163 F.3d 27, 50 (1st Cir. 1998).

[57] TCPIP Holding Company, Inc. v. Haar Communications Inc., 244 F.3d 88, 95 (2d Cir. 2001).

to zero, to negative (i.e., trademark holders are benefited by third party use). Costs to the trademark holder are positive when, for example, unauthorized third party use of a trademark diverts sales because consumers buy a cheaper product bearing a counterfeit mark rather than pay a higher price for the authorized version. Or the markholder may suffer a cost because unauthorized third party use diminishes positive consumer perceptions of the trademark. Conversely it's possible (albeit unlikely) for a trademark holder to be benefited by a third party's unauthorized use of the mark if the use gives the mark more "airtime" in front of consumers.[58] For this to be true, we have to assume that the determining factor of a mark's value is the quantity rather than the quality of publicity a mark receives.

How can an adjudicator tell if there is a harm to the trademark holder from the unauthorized use? A quick proxy for there being a harm to the trademark owner is the suit itself. If a trademark holder seeks injunctive relief, it probably believes it experiences a harm from the authorized third party use.[59]

Against any putative harms to the trademark holder must be weighed the costs and benefits to consumers of counterfeit marks. Suppose consumers are getting satisfaction from buying goods with counterfeit trademarks that they think are genuine. Although theoretically possible that fooling consumers results in a net social benefit, such a circumstance is unlikely. Cases of consumer confusion provide even fewer social benefits than cases in which consumers are not confused, all else equal, and present an even stronger argument for enforcement of trademark rights.[60]

Suppose instead it is potential consumers (but not the direct buyers of the falsely branded goods) who are confused about whether a good is the genuine article. One reason consumers

[58] See, e.g., Dreamwerks Production Group, Inc. v. SKG Studio, 142 F.3d 1127 (9th Cir. 1998) (in a likelihood of confusion context, mentioning the possibility that harm to the plaintiff trademark holder may be "somehow offset by any extra goodwill plaintiff may inadvertently reap as a result of the confusion between its mark and that of the defendant").

[59] The harm may be indirect or attenuated, such as the impression that the trademark holder is unlikely to enforce other legal rights if it does not enforce its intellectual property rights, but indirect harm is nonetheless harm.

[60] See, e.g., Landes & Posner, supra note 15.

knowingly buy counterfeit goods is because friends, relations, or other observers will be fooled into thinking the good is genuine. Such purchasers are trying to signal that the goods -- or perhaps by extension, the purchasers themselves -- have positive characteristics they do not necessarily possess.[61] Although there may be advantages to allowing purchasers to reap the benefits of false signaling, this must be balanced against the harm to third parties from being fooled, coupled with the harm to trademark holders from the potential unraveling of the high-quality signal that the trademark sends.

What if consumers are not confused? Assume neither the original purchaser nor potential consumers who see a falsely branded good after purchase are confused as to its counterfeit nature. What would it take for the social benefits of the counterfeit mark to exceed the social costs? If consumers benefit from the counterfeit good being cheaper than the genuine article, then their utility does not depend on the presence of the false trademark and the placement of the trademark on the item confers to additional benefit to consumers. Indeed to the extent consumers derive *any* benefit from the counterfeit good that is not trademark-related, such benefits should not enter into the social welfare calculation surrounding dilution law.

It's possible that consumers could somehow derive psychic satisfaction from counterfeit marks that fool no one. Perhaps they find the mark aesthetically pleasing even in its fake form and don't want to pay full price for the genuine mark. But such scenarios are likely to be uncommon. If a trademark is so aesthetically pleasing that consumers do not care about its source-identification function and are not using the mark as a source identifier, then trademark protection is probably inappropriate to begin with.[62] More likely are instances of parody and

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[61] See Eric A. Posner, *Symbols, Signals, and Social Norms in Politics and the Law*, 27 J. LEGAL. STUD. 765, 772 (1998) (discussing consumption of expensive goods as a means of attempting to signal desirable qualities). The originator of conspicuous consumption as a method of signaling desirable qualities -- in this case, wealth -- was THORSTEIN VEBLEN, THE THEORY OF THE LEISURE CLASS (1899).

[62] See, e.g., Publications Int'l, Ltd. v. Landoll, Inc., 164 F.3d 337 (7th Cir. 1998) ("Gold is a natural color to use on a fancy cookbook."); Pagliero v. Wallace China Co., 198 F.2d 339 (9th Cir. 1952) (trademark protection stripped away when aesthetically pleasing nature of the trademark conferred market power over the good itself). For a slightly unusual take on aesthetic functionality, see Plasticolor Molded Products v. Ford Motor Co., 713 F. Supp. 1329 (C.D. Cal. 1989) (stating in dictum that the use of FORD on automobile floor mats by a maker of replacement floor mats is "functional" because it is "designed to help the mats contribute to a harmonious ensemble of accessories and decorate the interior of a car."), vacated after settlement and a consent decree, 767 F. Supp. 1036 (C.D. Cal. 1991).

satire (to the extent we can even call the use of such marks counterfeit or free riding), in which consumers are not fooled as to the provenance of the mark yet they derive utility from the fact that the mark is not the real thing. Such cases can yield a net positive social benefit. If the social benefit is positive, trademark holders should lose on their dilution claims. I revisit these specific types of cases later in this paper. Other than cases of criticism, parody, satire, and so forth, we can say that few if any cases of counterfeit marks can be expected to result in a net social benefit to consumers.

Excluding parody, satire, and other forms of (truthful) communication using the mark, in most cases the harm to trademark holders from the counterfeit uses of their marks will be positive and the social benefits to consumers small to nonexistent. Counterfeiting cases, therefore, present the paradigmatic example where injunctive relief on a dilution claim ought to be granted. For the most part, courts of late have been getting this result right. In recent years, the dilution claims that do get injunctive relief usually involve counterfeit goods.[63]

Unfortunately, dilution law as written in the Lanham Act does not contain many limitations or other tools that can help courts distinguish social welfare-enhancing third party uses of the trademark (which should not be enjoined) from social welfare-diminishing third party uses of the trademark (which should be enjoined). If interpreted exactly as written, the dilution statute creates the opportunity to enjoin many instances of third party trademark use that have net positive social benefits. In the early years of dilution law, such outcomes were not uncommon, as courts issued injunctions against third parties whose use of another's mark was unlikely to create a net social cost.[64] Over time, courts increasingly have been reading limitations into the statute to prevent recovery in cases they are uncomfortable with. Because economic analysis of dilution law to date has been patchy at best,[65] courts generally have framed

[63] See, e.g., GMC v. Autovation Techs., Inc., 317 F. Supp. 2d 756 (E.D. Mich. 2004) (defendant's use of General Motor's trademark on counterfeit automobile parts enjoined); Nike Inc. v. Variety Wholesalers, Inc., 274 F. Supp. 2d 1352 (S.D. Ga. 2003) (defendant's use of NIKE mark on counterfeit socks and clothing enjoined).

[64] See., e.g, WAWA, Inc. v. Haaf, 40 U.S.P.Q.2d (BNA) 1629 (E.D. Pa. 1996) (HAHA mark found to infringe WAWA mark under a dilution theory); Gazette Newspapers v. New Paper, 934 F. Supp. 688 (D. Md. 1996).

[65] Ty v. Perryman, 306 F.3d 509 (7th Cir. 2002) (Posner, J.) is one of the few cases that presents some economic analysis of dilution law.

neither their discomfort nor the ensuing limitations on the theory of dilution in cost-benefit terms. Judges seem to know there is something wrong with dilution law as written, but haven't quite been able to tell what the problem is at a level above the purely doctrinal. As a result, each circuit has developed its own set of tools for cabining the statute, but the social welfare implications underlying these developments remain unexplored. In the balance of this paper, I analyze a few common types of moves courts make to limit dilution law. I also show the larger social welfare concerns those moves address.

## B. Avoidance Costs

One of the themes that surfaces often in dilution law is judicial concern with limiting the kinds of marks that receive protection. Courts consistently find ways to deny dilution protection to trademarks when it is difficult for third parties to identify whether a particular thing serves as a trademark or when it is costly for third parties to determine whether a mark is eligible for dilution protection. Put another way, courts generally create limitations that make it difficult for plaintiffs to recover when avoidance costs -- the costs to third parties of avoiding infringement -- are high. Judges are not using avoidance-cost language (or even third-party concerns) explicitly as a basis for their results. But whether intentioned or not, the practical result is that, all else equal, the harder it is for defendants to avoid getting enmeshed in a dilution suit the less likely courts are to enjoin defendants. Below I consider a few of the ways in which courts have created limitations that separate out and deny protection in high avoidance-cost cases.

### *1. The nature of the trademark*

There is nothing in the statute that limits the antidilution provisions to any particular kind of trademark. (Recall that "trademarks" are not literally limited to words, but can also include pictures, product packaging, design, color, sound, scent, and ambience.) Early interpretation of dilution law applied it across the board to a range of subject matter within the big tent known as trademarks. For example, the Second Circuit, which of all the circuits has been one of the greatest friends to dilution law -- not that that's saying much -- upheld a preliminary injunction that had been granted to protect the shape of a cracker from alleged dilution.[66] Most courts (including the Second Circuit in later cases), however, quickly limited the subject matter to which they would apply dilution protection. Most circuits that have considered the issue will work hard to deny dilution protection for anything that is not a word, logo, symbol, or picture.[67] For example, in *I.P. Lund Trading ApS v. Kohler Co.*, the First Circuit declined to apply dilution law to product design -- in this case the shape of a bathroom faucet -- stating that "[w]e doubt that Congress intended the reach of the dilution concept to extend this far."[68] The court justified its move by explaining that "[w]here words are the marks at issue it is easy to understand that there can be blurring and tarnishment [the two prevailing theories of dilution]. . . . What is much more difficult is to see how dilution is to be shown where some of a design is partially replicated."[69]

Here the *Lund* court appears to be grappling with a subtle issue: that of how third parties are supposed to recognize and avoid the boundaries of protected trademarks. On paper at least dilution looks like a fairly bright-line entitlement that consolidates a wide array of use rights in trademark owners. Correspondingly, dilution places stricter duties of avoidance than classic trademark law. This requires third parties to ascertain the elements of the protected trademark so as to avoid infringing. By contrast, classic trademark law, with its likelihood-of-confusion standard, conveys more a thinner bundle of use rights to the trademark owner. Under a likelihood of confusion standard, the trademark owner the right to exclude others from confusing uses, but not more than that. Historically, this meant use of the same trademark by two or more firms on noncompeting products -- such DELTA for airline services, faucets, dental insurance, power tools, and moving services -- would usually be deemed non-confusing and therefore non-infringing.

[66] See Nabisco, Inc. v. PF Brands, Inc., 191 F.3d 208 (2d Cir. 1999) (comparing Pepperidge Farm's Goldfish crackers with Nabisco's CatDog cracker).

[67] See, e.g., I.P. Lund Trading ApS v. Kohler Co., 163 F.3d 27 (1st Cir. 1998) (denying protection to product shape).

[68] Id. at 50.

[69] Id. at 50.

In some ways, dilution law's avoidance costs on paper are lower than those of classic trademark law. Whereas classic trademark law's infringement inquiry is nuanced and detailed, dilution's appears less so: if firm B uses firm A's famous mark without firm A's permission and that results in the diminution of distinctiveness of A's mark, that's infringement unless the use is covered by one of the statutory privileges of comparative advertising, noncommercial use, or news reporting.[70] Put another way, dilution's harm is less contextual, whereas classic trademark infringement requires third parties to determine whether their use of mark *X* would be likely to cause confusion among reasonable consumers in the relevant product market. By making the prohibited behavior less context-dependent, dilution lowers avoidance costs along one margin.

But additional factors raise avoidance costs along other margins. In recent years the subject matter of trademark protection has expanded outward to include source identifiers that tend to have higher definition costs than traditional pictorial or literary marks. Examples include product configuration, product design, and product ambience. Trademarks composed of words, logos, and pictures can be defined at fairly low cost by a simple representation on paper. Product design, configuration, and ambience, by contrast, often require thicker description to convey the concept of the trademark. Third parties trying to fulfill their duties of avoidance under either classic trademark infringement or dilution law must not just figure out the contexts in which they cannot use a protected mark; they must also figure out the contours of what they must avoid. In other words, third parties need to define marks in order to avoid them. The higher the definition costs of the mark, the more costly avoidance will be.

An example illustrates. The word GOLDFISH as a trademark for Pepperidge Farm's fish-shaped cracker is easier to define than the appearance of the same cracker, although both the word and the appearance of the cracker are trademarks. This is due not least to the fact that the word GOLDFISH is registered as a trademark with the U.S. Patent and Trademark Office (PTO) whereas the appearance of the cracker is not.[71] (Unlike a patent, a trademark does not have to be registered with the PTO in order to be protected.) In a minute I will return to the question of

[70] 15 U.S.C. § 1125(c)(4)(A)-(C) (listing the three privileges).

[71] See Registration Number 0801036 (December 28, 1965).

why Pepperidge Farm would register a word for a cracker but not the cracker's appearance while seeking to enforce protection for both. For now I will note that registering words, logos, and pictures but not product appearance with the PTO is a move trademark owners often make.

Even if the word GOLDFISH were not registered, however, the boundaries of the trademark GOLDFISH are easy to determine just by looking at the mark: they are the letters G-O-L-D-F-I-S-H. There isn't much room to expand or contract this definition. Perhaps Pepperidge Farm could successfully maintain after the fact that the zone of protection around GOLDFISH also includes misspellings like "Goldfisch," but even so, there is comparatively little wiggle room.

By contrast, the boundaries of trademark protection for the cracker's appearance are harder for third parties to measure and are more amenable to expansion and contraction. A trademark consists of the elements of a product that the trademark owner uses as a source-identifier for consumers,[72] but this doesn't necessarily allow third parties to identify the contours of the trademark with specificity. What features of the cracker are serving as a source identifier? Shape, size, texture, color, smell, flavor? Probably some combination of these. But third parties can't really say for sure, at least not before litigation. By refraining from registering the elements of the cracker that it considers to be its trademark, Pepperidge Farm has chosen not to commit itself ex ante to a definition. In truth, Pepperidge Farm may not know what elements of the cracker -- shape, size, color, etc. -- it considers to be the trademark until a competitor comes along with a similar product. Then Pepperidge Farm has every incentive to claim that the definition of its mark matches whatever the competitor is doing. Indeed, in *Nabisco, Inc. v. PF Brands, Inc.*, Pepperidge Farm argued successfully that the similarities ("color, shape, size, and taste") between the appearance of its cracker and the appearance of its competitor's product (a fish-shaped cracker that appeared as part of a mix of crackers labeled CATDOG) constituted the boundaries of its protected trademark whereas the differences (the baker's markings on each cracker, mix of crackers in the package) did not.[73]

[72] 15 U.S.C. § 1127 (defining the term "trademark" as "any word, name, symbol, or device, or any combination thereof [used] to identify and distinguish" goods).

[73] See Nabisco, Inc. v. PF Brands, Inc., 191 F.3d 208 (2d Cir. 1999).

Now we can see why owners of the types of trademarks to which protection has been expanded in recent years have incentives not to register their marks. The disadvantages of failing to register are few. Registration puts third parties on constructive notice nationwide, but third parties will have strict duties to avoid diluting famous marks regardless of whether the marks are registered or not. Dilution law already imposes on third parties relatively bright-line duties of avoiding a protected trademark. By refraining from registering marks such as product appearance, trademark owners reserve the chance to expand and contract the definition of their marks ex post.

Perhaps now we can better understand the move of most circuits to confine the dilution entitlement to words, logos, symbols, and pictures.[74] Such trademarks, whether registered or not, tend to present lower definition costs to third parties. Strict duties of avoidance are easier to fulfill when coupled with reasonable definition costs. Even when left unregistered, the definition of such trademarks is less amenable to after-the-fact manipulation. By contrast, trade dress such as product design, whether registered or not, tends to present high definition costs and avoidance costs. Coupling strict duties of avoidance with marks having unclear boundaries places high costs of avoidance on third parties.

***2. Inherent distinctiveness***

In addition to confining protection to a subset of all types of marks, over time most circuits that have considered the issue have come to confine protection to marks that are "inherently distinctive," or (writ large and a trifle simplistically) memorable enough to be associated with a particular product in consumers' minds from the very start of the mark's use.[75] Never mind if the mark established "distinctiveness," or became recognizable to consumers, over

[74] See, e.g., Planet Hollywood, Inc. v. Hollywood Casino Corp., 80 F. Supp. 2d 815, 903-04 (N.D. Ill. 1999) (holding that trade dress is not protected by the FTDA).

[75] See, e.g., I.P. Lund Trading ApS v. Kohler Co., 163 F.3d 27, 58 (1st Cir. 1998) (citing Restatement (Third) of Unfair Competition § 25 cmt e); TCPIP Holding Co. v. Haar Communications Inc., 244 F.3d 88, 98 (2d Cir. 2001). In *TCPIP*, the court stated, "Because TCPIP's mark, 'The Children's Place,' as a designator of stores for children's clothing and accessories, is descriptive, and thus, lacks inherent distinctiveness, it cannot qualify for the protection of the Dilution Act." Id.

time.[76] It makes no difference if the trademark holder's claim was that dilution began *after* the mark became distinctive. On this view, marks that are distinctive but have secondary meaning -- this is, marks that have had to establish recognition over time -- fail to qualify for dilution protection.

Once again, the dilution statute nowhere mandates any such requirement. Instead, all it says is that a mark must be distinctive.[77] This is nothing unusual; all trademarks must be distinctive in order to qualify for protection, even under classic theories of trademark protection. In trademark law, "distinctive" and "inherently distinctive" are terms of art. Inherently distinctive marks are a subset of all distinctive marks. Distinctiveness simply means consumers associate a mark with a product. By requiring inherent distinctiveness (consumer recognition from day one) when the statute demands only distinctiveness (consumer recognition), courts narrow the set of marks to which dilution law applies.

### *3. Famousness*

The one requirement unique to dilution law that Congress did explicitly impose on marks to qualify for protection is famousness. Congress then punted on the issue of exactly what makes a mark famous. Instead, the statute sets out eight factors that can be used, or not, as the court wishes.[78] These factors range from the degree of recognition a mark has among consumers to the extent of the geographical trading area. Some of the factors, such as fame in a product niche market, tip in favor of marks qualifying for protection under the FTDA. Other factors, such as "the geographical extent of the trading area in which the mark is used" could

[76] "The mark's deficiency in inherent distinctiveness is not compensated by the fact that TCPIP's mark has achieved a significant degree of consumer recognition." Id.

[77] 15 U.S.C. § 1125(c) (permitting an injunction against third party use of a mark that "causes dilution of the distinctive quality of the mark").

[78] Specifically, the eight factors are: "(A) the degree of inherent or acquired distinctiveness of the mark; (B) the duration and extent of use of the mark in connection with the goods or services with which the mark is used; (C) the duration and extent of advertising and publicity of the mark; (D) the geographical extent of the trading area in which the mark is used; (E) the channels of trade for the goods or services with which the mark is used; (F) the degree of recognition of the mark in the trading areas and channels of trade used by the marks' owner and the person against whom the injunction is sought; (G) the nature and extent of use of the same or similar marks by third parties; and (H) whether the mark was registered under the Act of March 3, 1881, or the Act of February 20, 1905, or on the principal register." 15 U.S.C. § 1125(c)(1)(A)-(H).

theoretically cut either way. Still others, such as "the channels of trade for the goods or services with which the mark is used" require an infusion of judicial interpretation.

Over time, courts have tended to gravitate toward those factors that tend to make fame more difficult to establish. For example, early cases had little problem allowing a regional mark to be declared famous, but later cases have generally rejected regional fame as meeting the famousness requirement.[79] As another example, cases decided when the statute was new held that fame in a product niche market was sufficient to establish fame for protection against trademark dilution, but most later courts have come out the other way.[80] All in all, proving the fame of a mark -- at least for purposes of qualifying for protection under the trademark dilution laws is proving ever more elusive for many trademark holders. The more nationally famous a mark, the more likely third parties are to be aware of its existence and the lower the costs of searching to determine which marks are off-limits.

### C. Trademarks as Servitudes

Strong trademark protection can create a servitude on goods. This is one of the most intractable and occult problems dilution law has presented for courts. The servitude-on-goods problem has appeared in a number of dilution cases, but to date no court has picked up on the existence of the servitudes, although judges express discomfort with the facts of the cases in which servitudes arise.[81] In these cases, judges can quite clearly sense a problem but have not

[79] Compare Wawa, Inc. v. Haaf, 40 U.S.P.Q.2d 1629, 1630 (E.D. Pa. 1996) (WAWA famous in Pennsylvania and surrounding states) with TCPIP Holding Co. v. Haar Communications Inc., 244 F.3d 88, 98 (2d Cir. 2001) (rejecting regional fame as sufficient to establish fame under the FTDA).

[80] Compare Advantage Rent-A-Car v. Enterprise Rent-A-Car, 238 F.3d 378 (5th Cir. 2001); Times Mirror Magazines Inc. v. Las Vegas Sports News, 212 F.3d 157 (3rd Cir. 2000) with TCPIP Holding Co. v. Haar Communications Inc., 244 F.3d 88, 99 (2d Cir.2001) (doubting that Congress intended to protect "marks that have enjoyed only brief same in a small part of the country, or among a small segment of the population"); I.P. Lund Trading ApS v. Kohler Co., 163 F.3d 27, 58 (1st Cir. 1998) (stating that famousness requires "national renown"); Heidi Ott A.G. v. Target Corp., 153 F. Supp. 2d 1055 (D. Minn. 2001) (citing concerns that fame based on a niche market would overprotect trademarks).

[81] See, e.g., Mattel Inc. v. Walking Mt. Prods., 353 F.3d 792 (9th Cir. 2003) (denying relief on the grounds that the defendant's use of the trademarked good was "noncommercial").

been able to define it clearly. We shouldn't be surprised. As Tom Merrill notes, "servitudes on personal property are rarely encountered in practice."[82]

Here's how dilution can create a servitude on goods. In the case of many goods, the trade dress -- the look and feel of the good -- is inseparable from the physical good itself. For example, the look-and-feel of Lego blocks is indistinguishable from the blocks themselves; the appearance of a Barbie doll is inseparable from the doll. Put another way, the intellectual property is inseparable from the tangible embodiment of the good. Under the exhaustion rule (also known as the first sale doctrine), an intellectual property owner's power to control the tangible embodiment of an intellectual good ends when the good is sold. For example, buyers of a patented widget may do what they wish with the widget, such as resell it or take it apart, without getting the patentee's permission.[83] What they may not do is make their own copy of the widget. Similarly, a purchaser of a copyrighted book has the right to do what she likes with the physical embodiment of the book -- read it, burn it, and so forth -- without incurring liability.[84] But she may not copy the expressive content of the book.

Classic trademark law also contains the court-created rule that a purchaser of a trademarked good has the "right to resell a branded item in an unchanged state" so long as it does not give rise to consumer confusion.[85] But such a rule is narrowly drawn and does not truly exhaust the trademark holder's rights to control the good in commerce. First, it does not apply to goods that the purchaser has altered and then put into the stream of commerce: "it is well-recognized that the exhaustion doctrine does not apply to genuine goods which have been altered."[86] This does not create a general exhaustion rule that can be applied to dilution claims.

[82] *See* Thomas W. Merrill & Henry E. Smith, Optimal Standardization in the Law of Property: The Numerus Clausus Principle, 110 Yale L.J. 1, 19 (2000) (stating that "although the case law is rather thin, it also appears that one cannot create servitudes in personal property").

[83] See, e.g., United States v. Univis Lens, Co., 316 U.S. 241, 249 (1942) (the first sale doctrine gives purchasers of patented items the right to use and resell the item).

[84] See 17 U.S.C. § 109(a) (2004), which states: "the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord."

[85] See, e.g., Original Appalachian Artworks, Inc., v. Granada Electronics, Inc., 816 F.2d 68, 76 (2d Cir. 1987) (Cardamone, concurring) (finding defendants created a likelihood of confusion).

[86] Id. at 76.

In the few instances in which courts have been faced with the trademark servitude problem under a classic likelihood of confusion theory, they have dealt with the problem by determining whether consumers would be confused by the purchaser's use of the plaintiff's trademark. Where purchasers have escaped liability it is because they have been deemed not to have caused consumer confusion, not because the trademark holder's rights over the physical embodiment of the good have been declared exhausted.[87] The exhaustion rule also does not apply to parallel importation of grey market goods, even when consumers are not confused.[88] Indeed, long before federal dilution law was created, courts have declared that a trademark holder's rights to control a trademarked good after purchase can continue to persist post-purchase if the trademark holder can demonstrate that goodwill surrounds its mark.[89] Since dilution law is intended to protect consumer goodwill in a mark, the logical extension of this rule is that trademark's exhaustion doctrine does not apply to dilution cases.

In the absence of an effective exhaustion rule to cut off the trademark holder's ability to control the use of a product containing famous and trade dress in separable from the product, dilution law gives trademark holders rights that can follow the good into the stream of commerce. *Liquid Glass Enterprises, Inc. v. Porsche A.G.*, provides an example.[90] In *Liquid Glass*, a car wax company used a Porsche car in an advertisement to sell its own car wax. The look-and-feel of a Porsche is trade dress; it was also declared famous. That Liquid Glass used Porsche's trade dress in a commercial context is clear. (Even if it were not, commercial use has

[87] See, e.g., NEC Elecs. v. CAL Circuit Abco, 810 F.2d 1506 (9th Cir. 1987). There, the court stated:

> Once a trademark owner sells his product, the buyer ordinarily may resell the product under the original mark without incurring any trademark law liability. The reason is that trademark law is designed to prevent sellers from confusing or deceiving consumers about the origin or make of a product, which confusion ordinarily does not exist when a genuine article bearing a true mark is sold.

Id. at 1509 (citations omitted).

[88] Id. at 76 ("the 'exhaustion' doctrine does not apply with equal force in the international context").

[89] See, e.g., id.; see also Osawa & Co. v. B & H Photo, 589 F. Supp. 1163, 1174 (S.D.N.Y. 1984) (exhaustion may apply if the trademark holder cannot show goodwill in the mark).

[90] See Liquid Glass Enterprises, Inc. v. Porsche A.G., 8 F. Supp. 2d 398,404-05 (D.N.J. 1998) (holding that the use of the PORSCHE trademark and an image of a PORSCHE car as trade dress in magazine and video advertisements for car polish constituted actionable dilution).

been found on the basis of even less seamy activity under the Lanham Act.[91]) It is questionable whether Liquid Glass's use's of Porsche's car in an advertisement would truly caused harm by "caus[ing] dilution of the distinctive quality" of the trade dress (the court found harm by virtue of the use)[92] but the fact that harm is questionable does not prevent Porsche from stating a prima facie claim of infringement.[93] Nor was Liquid Glass saved by the three statutory exceptions to liability -- comparative advertising, noncommercial use, and media use. Strong dilution protection -- here, essentially a straight misappropriation theory of dilution -- when applied to Porsche's trade dress allowed Porsche the effective right to control at least some commercial uses of the car -- "diluting" uses, whatever those are -- after purchase for use in the ad.

The court in *Liquid Glass* was not bothered by the existence of a servitude on goods -- indeed it did not discuss it at all -- and granted Porsche an injunction. But in more recent cases when strong dilution protection would create a servitude, judges have balked at allowing relief. Although no court has yet drawn the connection between dilution protection and the power of trademarks to create servitudes, when strong protection would allow trademark holders to control aftermarket uses of the good, courts have usually found a way to cut off the trademark holder's rights. This has often required a logical stretch, such as declaring a use that would be commercial in any other context under the Lanham Act to be noncommercial and therefore outside the ambit of the dilution protection.[94]

**D. Dilution and Speech**

[In this part I explore the tension between dilution law and commercial speech. As I discussed above, the unauthorized parodic use of a protected trademark by a third party usually

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[91] See, e.g., Intermatic, Inc. v. Toeppen, 947 F. Supp. 1227, 1239-40 (N.D. Ill. 1996) (where no products were being sold or offered for sale, the court held that "use of the Internet is sufficient to meet the 'in commerce' requirement of the [Federal Trademark Dilution] Act'").

[92] Id. at 405. As the court explained: "For many years, Porsche has endeavored to maintain its good will and reputation for producing high quality products catering to an exclusive market of automobile consumers. Liquid Glass's unauthorized use of Porsche's trademarks and trade dress is likely to slowly whittle away the distinctiveness of Porsche's marks, demeaning the Porsche cachet and blurring the value of its famous and strong marks." Id.

[93] 15 U.S.C. §§ 1125(c)(1) (2004).

[94] See, e.g., Mattel Inc. v. Walking Mountain Productions, 353 F.3d 792 (9th Cir. 2003).

imposes costs on trademark holders by holding the mark or the trademark owner up to ridicule, but it also generates social benefits. Dilution law contains three privileges -- comparative advertising, noncommercial use, and media use -- that protect some forms of unauthorized third party speech involving a trademark. These privileges, however, are rather limited, especially since the definition of what constitutes "commerce" is quite broad. Although often overlooked, a move courts sometimes make is to expand the statute's three privileges so as to prevent trademark holders from succeeding on a dilution claim when the third party use of the mark has positive social benefits.]

### E. The Nature of the Harm to Trademark Holders

[My previous discussion of avoidance costs, the effects of dilution on the marketplace, and dilution as a restriction on speech examined the social costs of enforcement of dilution claims. In this part, I look at how courts are re-defining the nature of the harm. By raising the evidentiary requirements and altering their theories of what "dilution" is, courts are succeeding in more finely identifying the social harm arising from third party unauthorized use of a trademark. By more accurately defining harm, court are improving their record of separating out dilution cases where third party use creates a net social harm from those that create a net social benefit.]

## CONCLUSION

At this point in my research, I am of two minds about the results of dilution law. On the one hand, dilution law as created by Congress prohibits a large range of potentially welfare-enhancing third party uses and a smaller number of welfare-diminishing third party uses alike. Enforced as written, many cases falling within the ambit of the statute would be those in which the social benefits of the unauthorized trademark use exceeded the social costs. Limitations and other mechanisms are necessary if relief is to be consistently and predictably confined to social welfare-increasing cases. Each circuit in its own way is creating its own set of limitations on dilution law. The upshot -- whether by design or not -- is that relief is usually being confined to cases that justify it on social welfare grounds. The courts appear to be getting it right with increasing frequency. In this respect, we are witnessing courts tailoring an overbroad and ambiguous form of intellectual property protection to correct for Congressional exuberance (or oversight, or perhaps just haste).[95]

But I am also left uneasy. The reining in of federal dilution law has largely been a bottom-up phenomenon. Each circuit has created its own set of limitations, some more directly supported by the statute than others, some more invasive than others, and some more effective than others. Nationwide, it is clear that dilution claims that fall within the parameters of the statute are becoming harder to win, but the contours of development within each circuit vary. Because the interpretation of dilution law is evolving quickly and differently in each circuit, anticipating the precise development of the law in each circuit can be difficult. Departure from previous Lanham Act precedent doesn't make it easier for litigants to adapt and adjust. Many of the limitations that are being created are only weakly supported, if at all, by the wording of the statute. Some are contradicted by precedent arising out of other areas of the Lanham Act. Although the courts have been confining relief in recent years to cases in which shutting down unauthorized use is most likely welfare-enhancing, some of the limitations are a stretch given the statutory language.[96] However efficiency-enhancing the results, the mechanisms used to obtain them are suspect. Don't look to Congress to make things better. Rather than incorporate into the statute limitations developed by courts to weed out the welfare-reducing cases, it appears that if Congress moves at all, it is poised to push dilution law in the opposite direction.[97]

The story sometimes told of intellectual property rights in the past few decades is one of relentless expansion. That intellectual property rights have increased in strength, length, breadth

[95] For a related discussion of the possibilities of private parties acting to limit the scope of intellectual property rights, see, e.g., Robert P. Merges, A New Dynamism in the Public Domain, 71 U. Chi. L. Rev. 183, 184 (2004) (discussing "private incentives to reduce property-related hassles"); Douglas Lichtman, Scott Baker, and Kate Kraus, Strategic Disclosure in the Patent System, 53 Vand. L. Rev. 2175 (2000).

[96] See, e.g., I.P. Lund Trading ApS v. Kohler Co., 163 F.3d 27, 58 (1st Cir. 1998) (interpreting "distinctive" as "inherently distinctive"); TCPIP Holding Co. v. Haar Communications Inc., 244 F.3d 88, 98 (2d Cir. 2001) (same).

[97] See "Witnesses at Hearing Support Revising FTDA to Require Likely, Not Actual, Dilution," 67 Pat. Trademark & Copyright J. (BNA) No. 1669 at 614-15 (April 30, 2004) (reporting how witnesses from the International Trademark Lawyer's Association and the Section of Intellectual Property Law of the American Intellectual Property Law Association testified in favor of amending the FTDA explicitly to cover marks that were not inherently distinctive, changing the standard to a "likelihood of dilution," among other things).

is unquestionable. But the quantitative data and qualitative results I have presented here should remind us that there are many mechanisms that affect the scope and power of intellectual property rights. Judicial development of intellectual property law is one of these mechanisms. Although the law as enforced is not as easy to discover as the law on the books, examining enforcement patterns is necessary to advance our understanding of the real effects of intellectual property rights.

# APPENDIX A

## Trademark Filings in U.S. District Courts, 1996-2004

| | **Filed** | **Filings Terminated as of 7/16/2004** | **% Terminated** |
|---|---|---|---|
| 1/1/2004-7/16/2004 | 1850 | 414 | 22.38% |
| 2003 | 3705 | 2699 | 72.85% |
| 2002 | 3470 | 3192 | 91.99% |
| 2001 | 3345 | 3252 | 97.22% |
| 2000 | 4101 | 4037 | 98.44% |
| 1999 | 3928 | 3813 | 97.07% |
| 1998 | 3477 | 3443 | 99.02% |
| 1997 | 3243 | 3221 | 99.32% |
| 1/16/1996-12/31/1996 | 2951 | 2882 | 97.66% |
| **Total** | **30070** | **26953** | |